Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

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PAGE 01 MADRID 03429 041421Z
ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 TRSE-00 FRB-01 SP-02 EB-03
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C O N F I D E N T I A L MADRID 3429

LIMDIS

FOR STATE, TREASURY AND FRB

E.O. 11652: GDS
TAGS: EFIN, PFOR, SP
SUBJECT: NEGOTIATIONS ON CONSORTIUM LOAN FOR GOS

REF: MADRID 3036

1. SUMMARY: THE EFFORTS TO ASSEMBLY A 300 MILLION DOLLAR LOAN FOR THE GOS (SEE REFTEL), BEGUN APRIL 22 AFTER A GO-AHEAD FROM THE MINISTRY OF FINANCE, IS FLOUNDERING. IT SEEMS UNLIKELY THAT MANUFACTURER'S HANOVER (MHT) CAN RAISE THE FULL SUM BEFORE THE GOS-IMPOSED MAY 15 DEADLINE. THE MAIN REASON WHY MOST BANKS ARE RELUCTANT TO PARTICIPATE IN THE PRIVATE PLACEMENT LOAN IS TIMING: A MAJOR NEW LOAN TO THE GOVERNMENT BEFORE THE ELECTIONS, SO SOON AFTER THE BILLION-DOLLAR CONSORTIUM LOAN, AND BEFORE FURTHER GOVERNMENT ECONOMIC MEASURES IS SEEN AS PREMATURE BY US BANKERS HERE. WE ARE TOLD BY THE MAJOR AMERICAN BANKS HERE THAT THEY ARE QUITE WILLING TO MAKE SPANISH LOANS, HOWEVER, AND THAT A NUMBER OF LARGE PROJECT-TYPE LOANS ARE IN VARIOUS STAGES OF NEGOTIATION. END SUMMARY.

2. MHT REPS HERE HAVE TOLD US THAT AFTER THE MINISTRY OF
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PAGE 02 MADRID 03429 041421Z

FINANCE (SATRUSTEGUI) GAVE MHT PERMISSION TO ASSEMBLY A LOAN FOR THE GOS, BOTH SATRUSTEGUI AND MHT STARTED MAKING TELEPHONE CALLS ON APRIL 22. THE TERMS OFFERED ARE SAID BY OUR BANK CONTACTS TO BE APPROPRIATE: 5 YEARS, WITH 2 YEARS GRACE, AT 1 1/8 OVER LIBOR AND 5/8 PARTICIPATION FEES. EACH BANK WAS ASKED TO TAKE A 25 MILLION DOLLAR SHARE IN THE PRIVATE PLACEMENT. FROM THE BEGINNING NO BANK EXPRESSED ENTHUSIASM,

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SO MHT AND SATRUSTEGUI DECIDED TO SEEK 50 MILLION DOLLAR SHARES SO THAT FEWER BANKS WOULD BE NEEDED TO ASSEMBLE THE FULL SUM. SO FAR ONLY MHT ITSELF IS COMMITTED, ALTHOUGH ONE OTHER US BANK IS CONSIDERING PARTICIPATION. MHT (PROTECT ALL REFERENCES TO MHT AND BANK ATTITUDES) TELLS US HAT THE LACK OF INTEREST IS DUE TO TIMING PROBLEMS. MANY BANKS FEEL IT IS PREMATURE, AT BEST, TO MAKE BALANCE-OF-PAYMENTS LOANS BEFORE THE JUNE ELECTIONS. THE BANKS ALSO HAVE ALTERNATIVE USES FOR FUNDS IN SPAIN: THERE ARE SEVERAL HUNDRED MILLION DOLLARS IN MAJOR EURODOLLAR LOANS NOW BEING SINDICATED FOR SPANISH ENTERPRISES, PUBLIC AND PRIVATE.

3. THE GOS HAS BEEN VERY STRONG IN ITS PUBLIC AND PRIVATE URGINGS TO SPANISH ENTERPRISES TO BORROW ABROAD. THE SUCCESS TO DATE HAS BEEN GRATIFYING, SO THAT FAILURE TO SINDICATE FOREIGN LOANS FOR THE GOS ITSELF WITHIN THE NEXT FEW MONTHS SHOULD NOT CAUSE A SIGNIFICANT FALL IN BANK OF SPAIN RESERVES. MOST OBSERVERS FEEL THAT LOANS TO SPAIN AND TO SPANISH ENTERPRIESES WILL TOGETHER BE SUFFICIENT TO AVOID BALANCE OF PAYMENTS DIFFICULTIES, AT LEAST THROUGH THE END OF THIS YEAR.

4. THE PROBABLE FAILURE OF THE MHT SINDICATION OF 300 MILLION DOLLARS, WILL, HOWEVER, HAVE SOME PSYCHOLOGICAL IMPACT. US BANKS HERE EXPECT ANOTHER, LARGER, SINDICATION FOR THE GOS TO BE ATTEMPTED IN THE FALL. AT LEAST ONE MAJOR US BANK HAS REPEATEDLY STATED ITS PREFERENCE THAT THE GOS STICK TO ITS FORMAL STATEMENT OF INTENTION, MADE IN CONNECTION WITH LAST AUGUST'S BILLION DOLLAR
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LOAN, NOT TO BORROW IN ITS ONW NAME UNTIL 1978.STABLER

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

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Margaret P. Grafeld
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EO Systematic Review
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